SANITATION AND WATER FOR ALL

Principles for Sustainable Water, Sanitation and Hygiene Finance

The water, sanitation and hygiene (WASH) sector is striving – and failing – to achieve sustainable and inclusive development of resources and services. Despite increasingly urgent calls to realise internationally agreed human rights and WASH targets, access to safe and affordable services remains consistently out of reach for many. Efforts to achieve inclusion and, crucially, sustainability are encumbered by a new set of challenges, notably climate change. Sustainable finance is the hurdle at which the sector falls.

Sustainable WASH Finance ensures financial flows and investment are unlocked and channelled towards sustainable and inclusive WASH. The latter champions a rights-based approach to service delivery processes beyond providing universal access. Efficiency, equity, and sustainability goals call for (financial) risks arising from interconnected environmental, social and governance factors to be mitigated through transparency and accountability in all (financial) transactions.

SWA partners are calling for **Principles for Sustainable WASH Finance** to correct the persistent mismatch of supply and demand for finance that prevents the global community from expanding services and reaching its stated goals. Having observed (1) an imbalance between spending on new WASH infrastructure and maintaining existing systems and (2) insufficient domestic expenditure, worsened by (3) an increase in aid fragmentation and (4) low levels of monitoring and financial accountability, we propose the following:

Principle 1

Guided by human rights obligations, WASH Finance prioritises universal access, particularly for the poorest, most marginalised, and vulnerable groups and individuals.

There is a marked discrepancy between stated commitments and priorities and the outcomes of current WASH finance allocations. Spending is not well aligned with need. Subsidies, however well-intended, more often than not benefit the better-off and completely bypass those unable to access formal services. Strong resistance to revising subsidies, supposedly on affordability grounds, only serves to entrench exclusion. The situation is exacerbated by a lack of suitably disaggregated data.

It remains an incontrovertible fact that traditionally underfunded service (areas) will always remain less attractive for those seeking 'bankable' investments. Calls for new investment into the sector and stimulating private capital involvement must not distract from *state* responsibilities: human rights demand a clear focus on those at risk of being left behind instead of likely returns for investors. Fundamental protections from discrimination, whether intended or not, must be anchored in all legislation, policies and national as well as operator strategies.

Principle 2

WASH Finance is coordinated through integrated finance strategies that align with national and international commitments and priorities.

Too often, WASH sector investment decisions are taken piecemeal rather than following a coherent plan. Project-based finance, especially emergency response interventions, always risks remaining disconnected from national strategic priorities. Although generally followed by international finance institutions and donors, this approach tends to side-line longer-term performance aspects, such as securing operational stability of assets.

In view of an expected post-pandemic fall in revenues and spiralling debt and debt service costs, a strategic realignment of WASH financing under clear (national) sector leadership is necessary. Funding decisions must be explicitly tied to the Sustainable Development Goals, Nationally Determined Contributions and other socially, environmentally, and economically relevant national targets, including climate resilience.

Principle 3

Governments, multilateral, bilateral, international, and local finance institutions prioritise support for domestic resource mobilisation und underpinning systems.

The need to raise and allocate finance for essential public services presents inherent difficulties: user and taxpayer contributions are politically negotiated choices. Though some countries will continue to require an element of external financial support, domestic resources mobilisation (DRM) can open the door to greater financial self-sufficiency, which is important for governments and providers. DRM also involves leveraging private WASH financing from domestic banks and capital markets.

Honest and dispassionate conversations are needed about tariff reform, acknowledging the true cost of inadequate access – to affected households, and to society – and hence the potential and necessity to adjust current pricing structures. Households are by far the largest financial contributors, often to compensate for poor or non-existent service. While some fiscal protections may be necessary for the most vulnerable, tariff adjustment is critical to support the oft-neglected operation and maintenance finance element. More cost-reflective tariffs also generate more reliable revenue streams, which in turn are a critical step towards improved creditworthiness.

Principle 4

Where needed, financial and technical assistance is pooled and channelled into government-coordinated programmes and plans.

Development aid fragmentation compounds the inefficient coordination of funding streams and creates high transaction costs. Strategically aligned aid, by contrast, can help recipient countries address the institutional, regulatory, and other bottlenecks which are preventing governments and service providers from unlocking additional financial resources.

Inflation and currency devaluation are causing a net reduction in aid flows, and governments are struggling to take on further concessional aid. Pooled assistance, basket funding and sharing out of target countries are amongst the options to consider in order to maximise the impact of individual donor contributions, as is harmonising procurement and reporting systems with recipients.

Principle 5

Strong public finance management and rigorous sector planning, backed by quality evidence, ensure transparency and accountability of all WASH finance.

There are considerable weaknesses in tracking finance flows into and within the sector, leaving it exposed to corruption and mismanagement. Although the TrackFin methodology was developed to support the collection and mapping of WASH financial flows, public financial management systems, are hampered by inadequate legal frameworks. The lack of reliable data based on standardised service level indicators prevents objective judgements to be made regarding the impact of spending on ensuring access to reliable and good quality services *in the long term*.

Consistent monitoring can help restore accountability and trust. Reporting requirements, methodologies and mechanisms need to be strengthened to ensure WASH finance is deployed in the most effective and efficient manner. WASH accounts need to capture the full range of financial inputs, and financial auditing must become the norm. Transparency and strong lines of accountability from the planning and design stage through to continuous performance monitoring promotes a positive investment climate and, as importantly, efficient use of existing finance.

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